

Commentary on the Public Sector Finances release: December 2012

1. The Office for National Statistics and HM Treasury published their December 2012 Public Sector Finances bulletin this morning.¹ Here we provide a brief analysis of the data and a comparison with our most recent forecast in the December 2012 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) totalled £15.4 billion in December, around £0.6 billion higher than in December last year and close to market expectations of £15.3 billion. Borrowing was up on December 2011 primarily because growth in central government current spending of 5.4 per cent over the 12 months outpaced growth in central government receipts of 3.6 per cent.
3. The December 2012 *EFO* forecast for PSNB in 2012-13 was £108.5 billion, excluding the impact of the Government's decision to move the Royal Mail's historic pension fund deficit and associated assets into the public sector. Measured in this way, the December *EFO* forecast implied a £13.1 billion decrease in PSNB between 2011-12 and 2012-13. This release suggests PSNB for the first nine months of the financial year was £7.2 billion higher than the same period last year.
4. Two one-off items are expected to reduce borrowing in the remainder of the year: £11.5 billion from the transfer of the proceeds of the Asset Purchase Facility (APF) to the Exchequer in the final quarter; and the proceeds of the 4G spectrum auction before the end of the fiscal year. We assumed in the December *EFO* that the spectrum auction would raise £3.5 billion, in line with published estimates by outside industry experts.
5. Excluding these items, our forecast implies that PSNB in the remaining three months of the year would need to be £6.3 billion lower than last year to match the December *EFO* forecast. This implies modestly higher receipts growth and weaker spending growth than we have seen in the year-to-date. In the *EFO* we expected this to come about through stronger growth in receipts from self assessment income tax and VAT than have been seen so far this year and continued underspends in central government departments in the later months of the financial year.

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/december-2012/stb---december-2012.html>

6. In the December *EFO*, we forecast that PSNB excluding the effects from Royal Mail and the APF would fall by £1.7 billion between 2011-12 and 2012-13. Given the uncertainty around receipts and spending outturns, even with only a quarter of the fiscal year remaining, this is not a significant difference and well within the margin for error. Tax receipts are highly dependent on the performance of the economy over the remainder of the year. There are also specific uncertainties on the level of financial sector bonuses and the extent to which some additional rate taxpayers shift income into next year to take advantage of the lower 45p rate. Central and local government expenditure outturns are prone to revision well after the end of the financial year. And, as we noted in the *EFO*, the proceeds from the spectrum auction are also highly uncertain.

December 2012 outturn

7. The rise in PSNB compared with last December chiefly reflects a £2.1 billion rise in central government spending that was only partly offset by a £1.5 billion rise in central government receipts. There was no significant revision to the estimate of PSNB for 2011-12.
8. Central government accrued receipts rose by 3.6 per cent in December compared to a year earlier. The rise in receipts reflected moderate growth in each of the three largest tax streams: income tax, NICs and VAT.
9. Central government current expenditure was 5.4 per cent higher than last December. This was driven mainly by a 6.5 per cent rise in other current spending. This reflected an increase in net EU contributions and higher grants to local authorities and higher education. Year-on-year growth rates for spending can be volatile between months and can be affected by factors such as the timing of grants. This applies to some of the grant payments in December, which last year were paid out in the final quarter. Initial estimates are also typically revised. So far during 2012-13, initial estimates of central government spending have generally been revised down, once firmer information has become available.

Outturn for April to December 2012

10. Revisions in this month's release have lowered PSNB for the first eight months of 2012-13 by £1.6 billion. This is primarily due to a downward revision of £1.9 billion in central government spending. There was no significant revision to the estimate of PSNB for 2011-12.
11. Year-to-date central government receipts show a rise of just 0.3 per cent from the equivalent period last year. This is much lower than the 3.8 per cent growth implied by our December forecast for 2012-13 as a whole. The full-year forecast is boosted by the inclusion of proceeds from the transfer of assets from the APF and the reclassification of Bradford and Bingley and Northern Rock (Asset Management) into central government. An initial APF transfer is expected to be included in the January data, while we expect the reclassification effects to be included before the end of the financial year. The year-to-date position also partly reflects the ongoing weakness in corporation tax receipts, particularly from the North Sea.

12. The assumed underlying growth in receipts in our December *EFO*, excluding the one-off elements, is around 1.3 per cent which is still above the current year-to-date growth rate. To meet our forecast we would need faster growth in VAT and self-assessment (SA) income tax in the latter part of the year. Last year, SA receipts were depressed by the unwinding of the forestalling that took place ahead of the introduction of the 50p additional rate. Any further unwinding is likely to be substantially lower than last year, boosting the annual growth rate for SA receipts. However VAT receipts since we produced the December *EFO* forecast have not shown the expected increase in growth rates.
13. Central government current expenditure in the first nine months of 2012-13 is 2.7 per cent higher than the same period last year, which is close to our December *EFO* forecast of 2.6 per cent growth for the full year. As set out in the December *EFO*, we expect departmental underspends to be higher this year than last year. Within total current expenditure, we expect strong growth in debt interest payments in the final part of the year, reflecting differences in the monthly path of the RPI, but other current expenditure to fall slightly on last year, as the higher underspends materialise and timing effects on grant payments reverse. Revisions may also bring down the expenditure growth rate.

Issues for the next PSF release

14. January is generally the highest month of the year for receipts. Last year, central government accrued receipts in January were around £19 billion higher than in the preceding month. In particular, this reflects:
 - corporation tax: many medium and large onshore firms will pay the third of four instalment payments on their 2012 profits, while oil and gas firms will pay their third and final instalment payment on their 2012 profits; and
 - self assessment and capital gains tax: this will relate to 2011-12 liabilities and is due at the end of the month. Although most of these receipts will be included in the January outturn, some will score in February. As noted earlier, we expect growth in SA receipts, although typically such receipts have been very difficult to forecast.
15. January will also see the first transfer of the proceeds from the Asset Purchase Facility to the Exchequer. The ONS's classification decision on APF has been delayed, but will be made prior to next month's release.

Public sector receipts, expenditure and net borrowing

| £ billion | December | | April to December | | | | Implied January to March | | | | Full Year | | | | | |
|---|--------------|--------------|-------------------|--------------|--------------|--------------|--------------------------|--------------|--------------|--------------|--------------|---------------|---------------------|--------------------|--------------|---------------|
| | 2012 | 2011 | change | | 2012-13 | 2011-12 | change | | 2012-13 | 2011-12 | change | | 2012-13 Dec EFO* | 2011-12 outturn | change | |
| | | | £bn | % | | | £bn | % | | | £bn | % | | | £bn | % |
| Central Government (CG) current receipts | | | | | | | | | | | | | | | | |
| Taxes on production | 18.0 | 17.2 | 0.8 | 4.6 | 155.1 | 152.7 | 2.4 | 1.6 | 53.6 | 50.4 | 3.2 | 6.3 | 208.7 | 203.1 | 5.6 | 2.8 |
| <i>Of which: VAT (accrued)</i> | 9.8 | 9.4 | 0.5 | 4.9 | 84.3 | 82.6 | 1.7 | 2.0 | 28.5 | 27.2 | 1.3 | 4.6 | 112.8 | 109.8 | 3.0 | 2.7 |
| Taxes on income and wealth | 14.6 | 14.3 | 0.3 | 2.0 | 130.0 | 133.7 | -3.7 | -2.8 | 66.3 | 64.4 | 1.9 | 3.0 | 196.3 | 198.1 | -1.8 | -0.9 |
| <i>Of which:</i> | | | | | | | | | | | | | | | | |
| <i>Income tax and CGT (accrued)</i> | 11.6 | 11.3 | 0.3 | 2.4 | 98.4 | 99.7 | -1.3 | -1.3 | 55.4 | 52.6 | 2.8 | 5.3 | 153.8 | 152.3 | 1.5 | 1.0 |
| <i>Corporation tax</i> | 2.8 | 2.8 | 0.0 | 0.3 | 29.0 | 31.5 | -2.5 | -7.8 | 9.9 | 10.7 | -0.7 | -7.0 | 38.9 | 42.2 | -3.2 | -7.6 |
| Other taxes | 1.1 | 1.1 | 0.0 | 0.9 | 11.6 | 11.6 | 0.0 | -0.2 | 4.2 | 3.7 | 0.5 | 12.9 | 15.8 | 15.3 | 0.5 | 3.1 |
| Compulsory social contributions | 8.8 | 8.5 | 0.3 | 3.6 | 75.6 | 73.3 | 2.3 | 3.2 | 28.5 | 28.3 | 0.2 | 0.7 | 104.1 | 101.6 | 2.5 | 2.5 |
| Interest & dividends | 0.5 | 0.4 | 0.1 | 27.1 | 4.3 | 4.2 | 0.1 | 2.3 | 15.7 | 3.2 | 12.5 | 396.4 | 20.0 | 7.4 | 12.6 | 171.6 |
| Other receipts | 0.7 | 0.7 | 0.0 | 3.3 | 6.2 | 6.0 | 0.3 | 4.4 | 2.4 | 1.9 | 0.5 | 26.1 | 8.6 | 7.9 | 0.7 | 8.8 |
| Total CG current receipts | 43.8 | 42.3 | 1.5 | 3.6 | 382.8 | 381.5 | 1.3 | 0.3 | 170.7 | 151.9 | 18.8 | 12.4 | 553.5 | 533.4 | 20.1 | 3.8 |
| CG Current expenditure | | | | | | | | | | | | | | | | |
| Interest payments | 4.4 | 4.2 | 0.2 | 5.1 | 36.0 | 37.8 | -1.9 | -4.9 | 11.1 | 9.3 | 1.8 | 18.7 | 47.1 | 47.1 | 0.0 | -0.1 |
| Net social benefits | 16.0 | 15.5 | 0.5 | 3.3 | 145.2 | 137.5 | 7.8 | 5.7 | 46.4 | 44.0 | 2.4 | 5.5 | 191.6 | 181.5 | 10.1 | 5.6 |
| Other | 34.9 | 32.8 | 2.1 | 6.5 | 291.9 | 285.2 | 6.7 | 2.3 | 102.7 | 103.6 | -0.9 | -0.9 | 394.6 | 388.8 | 5.8 | 1.5 |
| Total current expenditure | 55.3 | 52.5 | 2.8 | 5.4 | 473.1 | 460.5 | 12.6 | 2.7 | 160.3 | 156.9 | 3.4 | 2.2 | 633.4 | 617.4 | 16.0 | 2.6 |
| Depreciation | 0.7 | 0.6 | 0.0 | 3.3 | 5.9 | 5.7 | 0.3 | 4.4 | 2.1 | 1.8 | 0.3 | 17.5 | 8.0 | 7.5 | 0.5 | 6.9 |
| CG Surplus on current budget | -12.2 | -10.8 | -1.3 | -12.5 | -96.2 | -84.7 | -11.5 | -13.6 | 8.3 | -6.9 | 15.2 | -221.1 | -87.9 | -91.6 | 3.7 | -4.0 |
| CG Net investment | 2.9 | 3.7 | -0.8 | -21.9 | -11.7 | 18.4 | -30.1 | | 6.1 | 4.0 | 2.1 | 52.8 | -5.6 | 22.4 | -28.0 | -125.0 |
| CG Net borrowing | 15.0 | 14.5 | 0.6 | 3.8 | 84.5 | 103.0 | -18.6 | -18.0 | -2.2 | 10.9 | -13.1 | -120.1 | 82.3 | 113.9 | -31.6 | -27.8 |
| Local Authorities net borrowing | 0.2 | 0.2 | 0.0 | 26.3 | -5.5 | -3.6 | -1.9 | -53.0 | 5.2 | 11.3 | -6.1 | -54.1 | -0.3 | 7.7 | -8.0 | -103.9 |
| Public Corporations net borrowing | 0.2 | 0.2 | 0.0 | -11.8 | -0.4 | -0.2 | -0.3 | | -1.1 | 0.1 | -1.2 | -838.3 | -1.5 | -0.1 | -1.4 | 2841.2 |
| Public sector net borrowing | 15.4 | 14.8 | 0.6 | 3.8 | 78.5 | 99.3 | -20.8 | -20.9 | 2.0 | 22.3 | -20.3 | | 80.5 | 121.6 | -41.1 | -33.8 |
| PSNB (ex Royal Mail) | 15.4 | 14.8 | 0.6 | 3.8 | 106.5 | 99.3 | 7.2 | 7.3 | 2.0 | 22.3 | -20.3 | | 108.5 | 121.6 | -13.1 | -10.8 |
| Public sector net investment | 2.4 | 2.3 | 0.1 | 3.1 | -16.4 | 14.1 | -30.5 | 216.6 | 7.9 | 13.9 | -6.0 | -43.2 | -8.5 | 28.0 | -36.5 | -130.4 |
| Public sector current budget | -13.0 | -12.5 | -0.5 | -4.0 | -95.0 | -85.2 | -9.8 | -11.5 | 6.0 | -8.4 | 14.4 | -171.2 | -89.0 | -93.6 | 4.6 | -4.9 |

December 2012 EFO forecast published 5 December 2012 excluding temporary effects of financial interventions on a National Accounts basis